

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name	County
Audit Date	Opinion Date	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Abraham & Gellray, P.C.</i> <i>Alan M. Stone</i>			Date	

**Branch - Hillsdale - St. Joseph
Community Health Agency
Coldwater, Michigan**

FINANCIAL STATEMENTS

September 30, 2004

Branch - Hillsdale - St. Joseph
Community Health Agency

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ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Public Health
Branch - Hillsdale - St. Joseph
Community Health Agency
Coldwater, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Branch - Hillsdale - St. Joseph Community Health Agency as of and for the year ended September 30, 2004, which collectively comprise the Agency's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Branch - Hillsdale - St. Joseph Community Health Agency as of September 30, 2004, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated December 16, 2004, on our consideration of the Branch - Hillsdale - St. Joseph Community Health Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The accompanying other supplementary information and Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 16, 2004



Branch-Hillsdale-St. Joseph Community Health Agency

*"Your Community Partner
in Public Health"*

Management's Discussion and Analysis For Fiscal Year Ended September 30, 2004

Branch-Hillsdale-St. Joseph Community Health Agency is in its second year of implementing the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. This section of the annual financial statements, titled Management's Discussion and Analysis, represents the administration's review of the Agency's financial performance during the fiscal year ended September 30, 2004, and is a requirement of GASB 34. The Management's Discussion and Analysis is intended to be read in conjunction with the Agency's financial statements.

Generally accepted accounting principles (GAAP) according to GASB 34 require the reporting of two types of financial statements: Government-wide financial statements and Fund Level financial statements.

Financial Highlights

- The assets of the Agency exceeded its liabilities at September 30, 2004, by \$731,012 at the government-wide level. Of this amount, \$710,660 (unrestricted net assets) may be used to meet the Agency's ongoing obligations.
- The Agency's total net assets decreased \$6,784 as a result of this year's operations.
- As of September 30, 2004, the Agency's governmental fund reported an ending fund balance of \$883,131 and increase of \$6,373.
- As of September 30, 2004, the unreserved and undesignated fund balance was \$673,921, or approximately 10 percent of total fund expenditures.

Overview of the Financial Statements

The Branch-Hillsdale-St. Joseph Community Health Agency's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements: The government-wide financial statements provide information about the activities of the entire Agency. They present an overall view of the Agency's finances, reporting the assets and liabilities on fiscal year ending September 30, 2004.

The statement of net assets present information on all of the Branch-Hillsdale-St. Joseph Community Health Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during fiscal year 2003/04. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows.

All of the Branch-Hillsdale-St. Joseph Community Health Agency's are supported by intergovernmental revenues, governmental grants, fees and charges for services, interest and rents, local, and contributions. The governmental activities of the Agency are all considered health and sanitation programs. The Area Agency on Aging (AAA) is an autonomous department within CHA responsible for administering Federal and State funds to local aging programs and organizations within our two (2) county planning and service area (Branch & St. Joseph Counties only). We are designated by the Michigan Office of Services to the Aging (OSA) to carry out this function. The Agency does not operate any programs that are intended to recover all or a significant portion of their costs through user fees and charges.

The government-wide financial statements include only financial information related to the Branch-Hillsdale-St. Joseph Community Health Agency.

Fund Financial Statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Branch-Hillsdale-St. Joseph Community Health Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Agency operates with one fund, which is considered a governmental fund.

Governmental funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Branch-Hillsdale-St. Joseph Community Health Agency adopts an annual appropriated budget for its Health Fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 1-6 of this report.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 7-14 of this report.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgeted revenues and expenditures on page 15. Other supplementary information concerning expenditures of federal awards can be found on pages 16-25 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Branch-Hillsdale-St. Joseph Community Health Agency, assets exceeded liabilities by \$731,012. A comparative analysis of net assets as of September 30, 2004 and 2003, is presented below:

	<u>2004</u>	<u>2003</u>
Current assets	\$ 1,318,183	\$ 1,389,553
Capital assets	<u>20,352</u>	<u>32,331</u>
Total assets	1,338,535	1,421,884
Current liabilities	566,330	641,691
Noncurrent liabilities	<u>41,193</u>	<u>42,397</u>
Total liabilities	<u>607,523</u>	<u>684,088</u>
Net assets		
Invested in capital assets	20,352	32,331
Unrestricted	<u>710,660</u>	<u>705,465</u>
Total net assets	<u>\$ 731,012</u>	<u>\$ 737,796</u>

Unreserved net assets (the part of net assets that can be used to finance day to day operations) decreased by \$6,784. This represents a decrease of approximately 1 percent. The current level of unreserved net assets for our governmental activities stands at \$710,660, or approximately 11 percent of annual expenses. This is within our desired range.

The following table shows the comparative changes of net assets as of September 30, 2004 and 2003.

	<u>2004</u>	<u>2003</u>
Program revenues		
Charges for services	\$ 901,151	\$ 826,744
Operating grants and other/contributions	4,707,474	4,338,129
General revenue		
County appropriations	942,373	931,596
Cigarette tax	63,482	91,096
Interest	<u>7,226</u>	<u>12,857</u>
Total revenues	6,621,706	6,200,422
Program Expenses	<u>6,628,490</u>	<u>6,232,333</u>
Change in net assets	<u>\$(6,784)</u>	<u>\$(31,911)</u>

During the year, charges for services increased approximately \$74,407 due to the increase services and increased fee charges. Operating grants and other/contributions increased substantially by \$369,345 due to the Emergency Preparedness grant, WIC increased participation and one time funding, Title V (Family Planning match, EH Drinking Water (Long-Term Monitoring), Area Agency on Aging (AAA), Flu fees, and clinic services donations.

Total expenses increased only approximately 6% over last year. Significant reasons for the increase include general salary increases and COL, increases in on-going health insurance costs, and increases in required contributions to the Agency Retirement fund (MERS). Management Information System (MIS) had additional expenses in this fiscal year due to upgrading of work stations and software.

Financial Analysis of the Government's Fund

As noted earlier, the Branch-Hillsdale-St. Joseph Community Health Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Fund: The focus of the Branch-Hillsdale-St. Joseph Community Health Agency's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Branch-Hillsdale-St. Joseph Community Health Agency's financing requirements. In particular, unreserved-undesignated fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Branch-Hillsdale-St. Joseph Community Health Agency's governmental fund reported an ending fund balance of \$883,131, an increase of \$6,373 in comparison with the prior year. Of this total, \$21,968 has been reserved for prepaid expenditures. There has been \$187,242 designated for vacation and personal leave. The unreserved and undesignated fund balance at September 30, 2004, was \$673,921.

As a measure of the governmental fund's liquidity, it may be useful to compare both unreserved fund balance, total fund balance, and unreserved-undesignated fund balance to total fund expenditures. Unreserved fund balance and total fund balance represent approximately 13 percent of total fund expenditures, while unreserved-undesignated fund balance represents approximately 10 percent of total fund expenditures.

Governmental Fund Budgetary Highlights

Over the course of the year, the Branch-Hillsdale-St. Joseph Community Health Agency's Board of Directors amended the budget to take into account events that occurred during the year. The most significant change was to the increased estimated intergovernmental Federal/State grants. Because the grant revenue is tied to performance, the offset for this amended was to increase program costs.

The significant variances between the final amended budget and actual amounts for Federal/State grants were due to (Emergency Preparedness and WIC) revenues. Increase fee charges for permits and licenses were realized later in the fiscal year. Also, the vaccines used in the Immunization program were budgeted to reflect a more actual usage after having a prior year accounting.

Capital Asset and Debt Administration

Capital Assets: The Branch-Hillsdale-St. Joseph Community Health Agency's investment in capital assets as of September 30, 2004, amounts to \$20,352 (net of accumulated depreciation).

Long-term Obligations: The Branch-Hillsdale-St. Joseph Community Health Agency does not have any outstanding debt issues. The only long-term obligation the Agency currently has relates to compensation (e.g., unused vacation and personal leave). The total liability for this long-term obligation at September 30, 2004, is \$187,242.

Economic Factors and Next Year's Budget and Rates

For the fiscal year ending September 30, 2005, we anticipate cuts in funding provided through the Comprehensive Planning, Budgeting and Contracting (CPBC) agreement with the Michigan Department of Community Health. This level of funding has a significant impact on the types and levels of service we are able to provide as a Community Health Agency.

Because the services of the Branch-Hillsdale-St. Joseph Community Health Agency are provided based on need and not the ability to pay and the financial condition of the Branch-Hillsdale-St. Joseph Community Health Agency is healthy, the budget for the fiscal year ending September 30, 2005, did not incorporate an increase in any fees charged for services to the general public at that time.

Requests for Information

This financial report is designed to provide a general overview of the Branch-Hillsdale-St. Joseph Community Health Agency's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Donna Cowden
Director of Finance/MIS
Branch-Hillsdale-St. Joseph Community Health Agency
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Coldwater, MI 49036
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BASIC FINANCIAL STATEMENTS

Branch - Hillsdale - St. Joseph
Community Health Agency

STATEMENT OF NET ASSETS

September 30, 2004

	Governmental Activities
ASSETS	
Current assets	
Cash	\$ 885,693
Accounts receivable	39,913
Due from other governmental units - Federal/State	261,120
Prepaid expenditures	21,968
Inventory	109,489
Total current assets	1,318,183
Noncurrent assets	
Capital assets, net of accumulated depreciation	20,352
TOTAL ASSETS	1,338,535
LIABILITIES	
Current liabilities	
Accounts payable	159,250
Accrued wages	105,695
Other accrued liabilities	13,906
Deferred revenue	141,430
Current portion of compensated absences	146,049
Total current liabilities	566,330
Noncurrent liabilities	
Noncurrent portion of compensated absences	41,193
TOTAL LIABILITIES	607,523
NET ASSETS	
Invested in capital assets	20,352
Unrestricted	710,660
TOTAL NET ASSETS	\$ 731,012

See accompanying notes to financial statements.

Branch - Hillsdale - St. Joseph
Community Health Agency

STATEMENT OF ACTIVITIES

Year Ended September 30, 2004

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for	Operating	Revenues and
		Services	Grants and	Changes in
			Contributions	Net Assets
				Governmental
				Activities
Governmental activities:				
Personal health	\$ 4,260,206	\$ 335,916	\$ 3,320,493	\$ (603,797)
Environmental health	1,192,260	526,690	527,482	(138,088)
Aging services	894,797	-	859,499	(35,298)
Administration	191,315	38,545	-	(152,770)
Other	89,912	-	-	(89,912)
Total governmental activities	<u>\$ 6,628,490</u>	<u>\$ 901,151</u>	<u>\$ 4,707,474</u>	(1,019,865)
General revenues				
Interest				7,226
County appropriations				
Regular				909,902
Other				32,471
Cigarette tax				<u>63,482</u>
TOTAL GENERAL REVENUES				<u>1,013,081</u>
CHANGE IN NET ASSETS				(6,784)
Net assets, beginning of the year				<u>737,796</u>
Net assets, end of the year				<u>\$ 731,012</u>

See accompanying notes to financial statements.

Branch - Hillsdale - St. Joseph
Community Health Agency

GOVERNMENTAL FUND BALANCE SHEET

September 30, 2004

	Special Revenue
ASSETS	
Cash	\$ 885,693
Accounts receivable	39,913
Due from other governmental units - Federal/State	261,120
Prepaid expenditures	21,968
Inventory	109,489
TOTAL ASSETS	<u>\$ 1,318,183</u>
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts payable	\$ 159,250
Accrued wages	105,695
Other accrued liabilities	13,906
Deferred revenue	156,201
TOTAL LIABILITIES	435,052
FUND EQUITY	
Fund balance	
Reserved for prepaid expenditures	21,968
Unreserved	
Designated for vacation and personal leave	187,242
Unreserved - undesignated	673,921
TOTAL FUND EQUITY	<u>883,131</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 1,318,183</u>

See accompanying notes to financial statements.

Branch - Hillsdale - St. Joseph
Community Health Agency

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS

September 30, 2004

Total fund balance - governmental fund \$ 883,131

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 157,865	
Accumulated depreciation is	<u>(137,513)</u>	20,352

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Compensated absences	(187,242)
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Revenues not received within a specified period of time after year end are not considered
"available" to pay current period expenditures and therefore are recorded as deferred
revenues at the fund level.

<u>14,771</u>

Net assets of governmental activities	<u><u>\$ 731,012</u></u>
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See accompanying notes to financial statements.

Branch - Hillsdale - St. Joseph
Community Health Agency

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUND

Year Ended September 30, 2004

	Special Revenue
REVENUES	
Licenses and permits	\$ 280,354
Intergovernmental	
Federal/State	4,635,143
Local	14,253
Charges for services	587,894
Interest and rents	46,779
Other - contributions	58,078
	<hr/>
TOTAL REVENUES	5,622,501
EXPENDITURES	
Current	
Salaries and wages	2,788,194
Fringe benefits	976,944
Supplies and materials	959,584
Contractual	934,864
Communications	110,335
Travel and training	161,363
Insurance	84,573
Repairs and maintenance	42,448
Building and equipment lease and rentals	473,212
Printing and advertising	37,344
Postage	29,323
Other	23,799
	<hr/>
TOTAL EXPENDITURES	6,621,983
	<hr/>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(999,482)
OTHER FINANCING SOURCES	
Operating transfers in	
County appropriations - regular	909,902
County appropriations - other	32,471
Cigarette tax	63,482
	<hr/>
TOTAL OTHER FINANCING SOURCES	1,005,855
	<hr/>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	6,373
Fund balance, beginning of year	876,758
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Fund balance, end of year	\$ 883,131
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See accompanying notes to financial statements.

Branch - Hillsdale - St. Joseph
Community Health Agency

RECONCILIATION OF THE CHANGE IN FUND BALANCE OF GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES

Year Ended September 30, 2004

Net change in fund balance - governmental fund	\$	6,373
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense	(11,979)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues at the fund level. In the current year, these amounts consist of:

Charges for services	(6,650)
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued compensated absences	<u>5,472</u>
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Change in net assets of governmental activities	\$	<u>(6,784)</u>
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See accompanying notes to financial statements.

Branch - Hillsdale - St. Joseph
Community Health Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Branch - Hillsdale - St. Joseph Community Health Agency is a joint venture between Branch, Hillsdale, and St. Joseph Counties, and was established to provide public health services. The Community Health Agency Board has representation and provides services to Branch, Hillsdale, and St. Joseph Counties. Each County provides annual appropriations and passes through the statutory amounts of cigarette tax funding to subsidize operations. The current funding formula approved by the Community Health Agency requires Branch, Hillsdale, and St. Joseph Counties to provide approximately 29, 30, and 41 percent, respectively.

The primary revenues of the Branch - Hillsdale - St. Joseph Community Health Agency are charges for services, Federal and State grants and County appropriations.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, The Financial Reporting Entity; and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements are exclusive presentations of the financial condition and results of operations of the Branch - Hillsdale - St. Joseph Community Health Agency. The Agency is considered a "joint venture" of Branch, Hillsdale, and St. Joseph Counties.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Agency as a whole.

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the Agency and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest and all County appropriations and shows how governmental functions are either self-financing or supported by the general revenues of the Agency.

FUND FINANCIAL STATEMENTS

The Agency uses a single fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present the Agency's individual major fund.

The governmental fund is presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

2. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

The major fund of the Agency is:

- a. Special Revenue Fund - This fund is used to account for all financial resources of the Agency, which are restricted to expenditures for specified health related purposes.

3. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include state and federal grants and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The Agency reports deferred revenue on its governmental fund balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities. Deferred revenues also arise when the Agency receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

4. Budgets and Budgetary Accounting

The annual budget of the Agency is prepared by Agency management and approved by the Board. Any revisions to the original budget are approved by the Board before the end of the fiscal year.

5. Cash

Cash consists of the Agency's payroll and accounts payable checking accounts, branch office depository accounts, imprest cash, and cash on deposit with the Branch County Treasurer.

Branch - Hillsdale - St. Joseph
Community Health Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

6. Receivables and Deferred Revenue

Receivables consist of amounts due from governmental units for various grant programs and accounts receivable for charges for services to clients and other organizations.

The Agency has recognized the revenue related to charges for services at the time the services are performed and billed to the extent such amounts are estimated to be received. Contractual adjustments by third-party payors are treated as a reduction to revenues.

The Agency has recorded deferred revenue at both the government-wide and the fund level equaling the amount of vaccine inventory received from the State of Michigan that is on hand at year-end. The Agency has also recorded deferred revenue at the fund level for amounts due to the Agency but not collected within sixty days of fiscal year-end.

7. Inventories

Inventories are stated at cost on a first in/first out basis. Inventory consists of vaccines received from the State of Michigan. Vaccine inventory on hand at year-end have been reported as deferred revenue.

8. Capital Assets

Capital assets include equipment and land improvements and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements. Capital assets are those with an initial individual cost of \$1,000 or more, with estimated useful lives of more than one year. Capital assets are not recorded in the governmental fund. Instead, capital acquisitions are reflected as expenditures in the governmental fund, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	7 years
Equipment	4-10 years

The Agency has no assets that would be classified as infrastructure assets.

9. Compensated Absences

The Agency employees are granted vacation and personal leave in varying amounts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation and personal time. This amount, along with related payroll taxes has been recorded as a current and long-term liability in the government-wide financial statements.

10. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since its inclusion would make the statements unduly complex and difficult to read.

Branch - Hillsdale - St. Joseph
Community Health Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE B: CASH

In accordance with Michigan Compiled Laws, the Agency is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Corporation or Government National Mortgage Association.

The Agency's bank deposits at September 30, 2004, are composed of the following:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash		
Checking accounts	\$ <u>3,442</u>	\$ <u>173,397</u>

Bank deposits of the Agency are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Agency. As of September 30, 2004, the Agency's accounts were fully insured by the FDIC.

The cash balances reported in the basic financial statements include \$5,203 in imprest cash and \$877,048 in cash that is on deposit with the Branch County Treasurer. The cash on deposit with the Branch County Treasurer is part of the County pooled cash and investments. As a result, the insured and uninsured amounts related to these amounts cannot be determined.

Branch - Hillsdale - St. Joseph
Community Health Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE C: CAPITAL ASSETS

The following provides a summary of the changes in capital assets for the year ended September 30, 2004:

	Balance <u>Oct. 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Sept. 30, 2004</u>
Governmental activities:				
Equipment	\$ 135,142	\$ -	\$ -	\$ 135,142
Land Improvements	<u>22,723</u>	<u>-</u>	<u>-</u>	<u>22,723</u>
Totals at historical cost	157,865	-0-	-0-	157,865
Less accumulated depreciation for:				
Equipment	(114,713)	(10,693)	-	(125,406)
Land Improvements	<u>(10,821)</u>	<u>(1,286)</u>	<u>-</u>	<u>(12,107)</u>
Total accumulated depreciation	<u>(125,534)</u>	<u>(11,979)</u>	<u>-0-</u>	<u>(137,513)</u>
Capital assets, net	<u>\$ 32,331</u>	<u>\$ (11,979)</u>	<u>\$ -0-</u>	<u>\$ 20,352</u>

Depreciation expense appears on the statement of activities in these governmental functions: Personal Health \$3,041, Environmental Health \$1,185, Aging Services \$205, Administration \$7,309, and Other \$239.

NOTE D: COMPENSATED ABSENCES

Employees of the Branch - Hillsdale - St. Joseph Community Health Agency are granted vacation and personal leave in varying amounts based on length of service. Upon termination of employment, employees are paid accumulated vacation at full current rate of pay to a maximum of 360 hours, and accumulated personal leave at full current rate of pay of hours accumulated up to a maximum of 30 hours.

Accumulated vacation leave and personal pay represents a liability to the Agency, which is presented in a current and long term portion of the liability. For this reason, the total liability is reported in the government-wide financial statements and represents a current liability of \$146,049 and a long-term liability of \$41,193 at September 30, 2004. Payments to employees for vacation leave and personal pay are recorded as expenditures when they are used and payments are actually made to the employees.

The following is a summary of changes in compensated absences for the year ended September 30, 2004:

	Balance <u>Oct. 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Sept. 30, 2004</u>	Amount Due Within <u>One Year</u>
Compensated Absences	<u>\$ 192,714</u>	<u>\$ -0-</u>	<u>\$ 5,472</u>	<u>\$ 187,242</u>	<u>\$ 146,049</u>

Branch - Hillsdale - St. Joseph
Community Health Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE E: RETIREMENT PLAN

Plan Description

The Agency participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the Agency. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Board of Public Health. The plan requires a contribution from the employees of three (3) percent of wages depending on the employee group covered. The Agency is required to contribute the remaining amounts necessary to fund the system.

Annual Pension Cost

For the year ended September 30, 2004, the Agency's annual pension cost of \$125,397 for the plan was equal to the Agency's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry actual age cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) a 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation and (c) additional salary increases ranging from 0% to 4.2% per year depending on age, seniority and merit. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five (5) year period.

Three (3) year trend information

	Year Ended December 31,		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Actuarial value of assets	\$ 7,045,120	\$ 7,160,660	\$ 7,609,451
Actuarial accrued liability (AAL) (entry age)	5,544,070	6,810,239	7,328,279
Unfunded (overfunded) AAL	(1,501,050)	(350,421)	(281,172)
Funded ratio	127 %	105 %	104 %
Covered payroll	2,419,830	2,553,708	2,441,083
UAAL as a percentage of covered payroll	0 %	0 %	0 %
	Year Ended September 30,		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Annual pension cost	\$ -0-	\$ 50,275	\$ 125,397
Percentage of APC contributed	N/A %	100 %	100 %
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

Branch - Hillsdale - St. Joseph
Community Health Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE F: DEFERRED COMPENSATION

The Branch - Hillsdale - St. Joseph Community Health Agency offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to substantially all Agency employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plan is administered through the National Association of Counties (NACO) and Nationwide Retirement Solutions.

Legislative change has been made to 457 plans which mandate that no later than January 1, 1999, all existing 457 plan assets must be held in a custodial account, trust, annuity contract for benefit of participants and their beneficiaries.

Once a trust, custodial account, or annuity contract exists, assets are owned or held by the trust, custodian, or insurer for the exclusive benefit of participants and beneficiary, and are not subject to the claims of public employees creditors nor can they be used by the public employee for any purpose other than the payment of benefits to these individuals participating in the plan or their designated beneficiaries. As of September 30, 1999, the Agency had implemented changes to be in compliance with the new requirement. As a result, the plan assets are not reported by the Agency because the new legislation has eliminated the requirements that Section 457 plan assets legally remain the assets of the sponsoring government.

NOTE G: RISK MANAGEMENT

The Agency carries commercial insurance for the risk of loss due to workers' compensation claims.

The Agency also participates in a State pool, the Michigan Municipal Risk Management Authority, with other municipalities for property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The Agency has no liability for additional assessments based on the claims filed against the pool nor do they have any rights to dividends.

NOTE H: NON-CANCELABLE OPERATING LEASE OBLIGATIONS

The Branch - Hillsdale - St. Joseph Community Health Agency has entered into twenty-year, non-cancelable long-term leases with NHF Sub St. Joseph and Hillsdale Public Health Building Corporation, nonprofit organizations, for the St. Joseph and Hillsdale branch offices space respectively.

<u>Hillsdale</u>	
2005	\$ 79,200
2006	79,200
2007	79,200
2008	79,200
2009	79,200
2010 and thereafter	<u>336,600</u>
	732,600

Branch - Hillsdale - St. Joseph
Community Health Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE H: NON-CANCELABLE OPERATING LEASE OBLIGATIONS - CONTINUED

<u>St. Joseph</u>	
2005	\$ 72,000
2006	72,000
2007	72,000
2008	72,000
2009	72,000
2010 and thereafter	<u>522,000</u>
	<u>882,000</u>
TOTAL PAYMENTS	<u>\$ 1,614,600</u>

NOTE I: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance that the Agency has set aside for specific purposes.

The following are the fund balance reserves as of September 30, 2004:

Reserved for prepaid expenditures	<u>\$ 21,968</u>
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The following are the fund balance designations as of September 30, 2004:

Designated for vacation and personal leave	<u>\$ 187,242</u>
--	-------------------

NOTE J: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the required supplementary information budgetary compensation schedule, the Agency's budgeted expenditures in the Special Revenue Fund have been shown at the functional classification level. The approved budget of the Agency has been adopted at the total expenditure level.

During the year ended September 30, 2004, the Agency incurred expenditures in excess of the amounts appropriated as follows:

<u>Amounts</u> <u>Appropriated</u>	<u>Amounts</u> <u>Expended</u>	<u>Variance</u>
\$ 6,444,198	\$ 6,621,983	\$ 177,785

REQUIRED SUPPLEMENTARY INFORMATION

Branch - Hillsdale - St. Joseph
Community Health Agency

BUDGETARY COMPARISON SCHEDULE

Year Ended September 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Licenses and permits	\$ 262,400	\$ 251,680	\$ 280,354	\$ 28,674
Intergovernmental				
Federal/State	3,861,229	4,303,697	4,635,143	331,446
Local	5,000	4,500	14,253	9,753
Charges for services	495,412	503,787	587,894	84,107
Interest and rents	52,661	48,161	46,779	(1,382)
Other - contributions	36,500	36,500	58,078	21,578
TOTAL REVENUES	4,713,202	5,148,325	5,622,501	474,176
EXPENDITURES				
Current				
Salaries and wages	2,805,522	2,730,197	2,788,194	(57,997)
Fringe benefits	1,012,708	925,781	976,944	(51,163)
Supplies and materials	347,738	839,077	959,584	(120,507)
Contractual	976,066	935,354	934,864	490
Communications	100,006	139,275	110,335	28,940
Travel and training	162,207	162,044	161,363	681
Insurance	82,321	81,508	84,573	(3,065)
Repairs and maintenance	42,627	42,179	42,448	(269)
Building and equipment lease and rentals	488,573	491,589	473,212	18,377
Printing and advertising	26,050	36,881	37,344	(463)
Postage	27,095	30,455	29,323	1,132
Other	29,375	29,858	23,799	6,059
TOTAL EXPENDITURES	6,100,288	6,444,198	6,621,983	(177,785)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(1,387,086)	(1,295,873)	(999,482)	296,391
OTHER FINANCING SOURCES				
Operating transfers in				
County appropriations - regular	1,202,072	1,131,398	909,902	(221,496)
County appropriations - other	93,918	100,993	32,471	(68,522)
Cigarette tax	91,096	63,482	63,482	-0-
TOTAL OTHER FINANCING SOURCES	1,387,086	1,295,873	1,005,855	(290,018)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	-0-	-0-	6,373	6,373
Fund balance, beginning of year	876,758	876,758	876,758	-0-
Fund balance, end of year	<u>\$ 876,758</u>	<u>\$ 876,758</u>	<u>\$ 883,131</u>	<u>\$ 6,373</u>

OTHER SUPPLEMENTARY INFORMATION

Branch - Hillsdale - St. Joseph Community Health Agency

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2004

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Revenues</u>	<u>Expenditures</u>
U. S. DEPARTMENT OF AGRICULTURE				
Passed through Michigan Department of Community Health				
Special Supplemental Nutrition Program for				
Women, Infants and Children (WIC)	10.557 ^(c)	N/A	\$ 470,469	\$ 470,469
FY 03-04 Regular				
U.S. DEPARTMENT OF ENVIRONMENTAL PROTECTION AGENCY				
Passed through Michigan Department of Environmental Quality				
State Indoor Radon Grants	66.032	N/A	2,600	2,600
State Grants to Reimburse Operators of Small Water Systems				
for Training and Certification Costs	66.471	N/A	12,000	12,000
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through Michigan Department of Community Health				
Family Planning - Services	93.217	N/A	118,352	118,352
FY 03-04 Project				
Immunization Grants	93.268	N/A	621,688	621,688
FY 03-04 Vaccine supply		N/A	69,147	69,147
FY 03-04 IAP		N/A	5,150	5,150
FY 03-04 Site Visits ^(b)			<u>5,150</u>	<u>5,150</u>
			695,985	695,985
Centers for Disease Control and Prevention -				
Investigations and Technical Assistance	93.283 ^(c)			
Bioterrorism				
Focus A		N/A	133,566	133,566
Focus B		N/A	59,926	59,926
Focus E		N/A	79,972	79,972
Focus F		N/A	17,185	17,185
Focus G		N/A	18,547	18,547
Smallpox Training ^(b)		N/A	<u>2,000</u>	<u>2,000</u>
			311,196	311,196

Branch - Hillsdale - St. Joseph Community Health Agency

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended September 30, 2004

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONTINUED				
Passed through Michigan Department of Community Health - continued				
Maternal and Child Health Services Block Grant	93.994			
FY 03-04 Local MCH CSHCS Block Grant		N/A	\$ 97,788	\$ 97,788
FY 03-04 Family Planning		N/A	25,795	25,795
FY 03-04 Case Management Services (CC-LBS) ^(a)		N/A	<u>17,364</u>	<u>17,364</u>
			140,947	140,947
Cooperative Agreements for State-based Diabetes Control Programs and Evaluation of Surveillance Systems FY 03-04	93.988	N/A	67,696	67,696
Passed through Michigan Family Independence Agency and Michigan Department of Community Health Medical Assistance Program (Title XIX Medicaid) Medicaid Administration ^(a)	93.778			
FY 03-04		N/A	11,015	11,015
CSCH Care Coordinator ^(b)				
FY 03-04		N/A	<u>21,054</u>	<u>21,054</u>
			32,069	32,069
Promoting Safe and Stable Families	93.556			
FY 03-04 Healthy Families Nurturing Community (St. Joe)		CHPR-03-75001	42,229	42,229
FY 03-04 Strong Families/Immunizations (Hillsdale)		SFSC-04-30002	<u>18,457</u>	<u>18,457</u>
			60,686	60,686
Temporary Assistance for Needy Families	93.558			
FY 03-04 Healthy Families Nurturing Community (St. Joe)		CHPR-03-75001	58,316	58,316
FY 03-04 0-3 Secondary Prevention (Hillsdale)		CTFPR-04-30001	<u>82,250</u>	<u>82,250</u>
			140,566	140,566
Community-Based Family Resource and Support Grants				
FY 03-04 Healthy Beginnings - Teens	93.590	CTFDS-04-30001	30,000	30,000

Branch - Hillsdale - St. Joseph Community Health Agency

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended September 30, 2004

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONTINUED				
Passed through State Department of Office on Services to the Aging				
Title III-D Special Programs for the Aging (Disease Prevention and Health Promotion Services) FY 03-04	93.043	N/A	\$ 8,497	\$ 8,497
Title III-B Special Programs for the Aging (Grants for Supportive Services and Senior Centers) FY 03-04 Administration ^(a) FY 03-04 Regular	93.044 ^(d)	N/A N/A	13,254 <u>118,100</u>	13,254 <u>118,100</u>
			131,354	131,354
Title III-C Special Programs for the Aging (Nutrition Services) FY 03-04 Nutrition Congregate FY 03-04 Nutrition Home Delivered Meals FY 03-04 Nutrition Administration ^(a)	93.045 ^(d)	N/A N/A N/A	143,041 66,470 <u>22,366</u>	143,041 66,470 <u>22,366</u>
			231,877	231,877
National Family Caregiver Support FY 03-04 Administration ^(a) FY 03-04 Regular	93.052	N/A N/A	5,799 <u>48,680</u>	5,799 <u>48,680</u>
			54,479	54,479
Nutrition Services Incentive Program FY 03-04 Regular	93.053 ^(d)	N/A	<u>99,046</u>	<u>99,046</u>
TOTAL FEDERAL AWARD EXPENDITURES			<u>\$ 2,607,819</u>	<u>\$ 2,607,819</u> ^(e)

Branch - Hillsdale - St. Joseph
Community Health Agency

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

September 30, 2004

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the Branch - Hillsdale - St. Joseph Community Health Agency and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) - (e) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) Reimbursements of these contracts are passed through the State. The amounts reported on the Schedule of Expenditures of Federal Awards represent the Federal portion of the respective amounts based on the following percentages of Federal participation.

<u>Program</u>	<u>CFDA Number</u>	<u>Percent</u>
Title III-B Administration	93.044	32.0 %
Title III-C Administration	93.045	54.0
National Family Caregiver Administration	93.052	14.0
Case Management Services (CC-LBS)	93.994	45.5
Capitalization Grants for Drinking Water		
State Revolving Fund	66.468	83.0
Medicaid Administration	93.778	50.0

- (b) The reimbursements for these programs are based on a fixed unit rate for each allowable service provided. Expenditures have been reported to the extent of earned revenues.
- (c) Denotes programs tested as "major programs".
- (d) Denotes programs required to be clustered by United States Department of Health and Human Services.
- (e) The following reconciles the federal revenues reported in the September 30, 2004, financial statements to the expenditures of the Agency administered federal programs reported on the Schedule of Expenditures of Federal Awards:

Federal/State Revenue (per fund financial statements)	\$ 4,635,143
<u>Less:</u> Portions of grant funding considered "State" funding	<u>(2,027,324)</u>
	<u>\$ 2,607,819</u>

Principals

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Public Health
Branch - Hillsdale - St. Joseph
Community Health Agency
Coldwater, Michigan

We have audited the financial statements of the governmental activities and major fund of Branch - Hillsdale - St. Joseph Community Health Agency as of and for the year ended September 30, 2004, which collectively comprise Branch - Hillsdale - St. Joseph Community Health Agency basic financial statements and have issued our report thereon dated December 16, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Branch - Hillsdale - St. Joseph Community Health Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Branch - Hillsdale - St. Joseph Community Health Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. We noted certain matters that we reported to management of Branch - Hillsdale - St. Joseph Community Health Agency in a separate letter dated December 16, 2004.

This report is intended solely for the information of the Board and management of Branch - Hillsdale - St. Joseph Community Health Agency, pass-through grantors, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 16, 2004

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Public Health
Branch - Hillsdale - St. Joseph
Community Health Agency
Coldwater, Michigan

Compliance

We have audited the compliance of Branch - Hillsdale - St. Joseph Community Health Agency with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that is applicable to each of its major Federal programs for the year ended September 30, 2004. Branch - Hillsdale - St. Joseph Community Health Agency's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Branch - Hillsdale - St. Joseph Community Health Agency's management. Our responsibility is to express an opinion on Branch - Hillsdale - St. Joseph Community Health Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major Federal programs occurred. An audit includes examining, on a test basis, evidence about Branch - Hillsdale - St. Joseph Community Health Agency's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Branch - Hillsdale - St. Joseph Community Health Agency's compliance with those requirements.

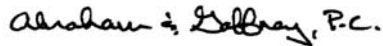
In our opinion, Branch - Hillsdale - St. Joseph Community Health Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ending September 30, 2004.

Internal Control Over Compliance

The management of Branch - Hillsdale - St. Joseph Community Health Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Branch - Hillsdale - St. Joseph Community Health Agency's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board and management of Branch - Hillsdale - St. Joseph Community Health Agency, the pass-through grantors, and the Federal awarding agencies and is not intended to be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 16, 2004

Branch - Hillsdale - St. Joseph
Community Health Agency

SCHEDULE OF FINDINGS

Year Ended September 30, 2004

SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the basic financial statements of the Branch - Hillsdale - St. Joseph Community Health Agency.

There were no reportable conditions disclosed by the audit of the basic financial statements.

We noted no instances of noncompliance with laws, regulations, contracts, and grant agreements that could have a direct and material affect on the basic financial statements.

An unqualified opinion was issued on compliance for major programs. We disclosed no findings regarding internal controls or compliance related to the major programs tested.

The major programs tested to cover 25 percent of the total Federal expenditures were the Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA 10.557) and Centers for Disease Control and Prevention - Investigations and Technical Assistance (CFDA 93.283) programs. Total Federal expenditures for the year ended September 30, 2004, for the major programs was \$781,665, which is approximately 30 percent of the total Federal Award expenditures. The Agency qualified as a low risk auditee.

The dollar threshold for Type A programs of the Branch - Hillsdale - St. Joseph Community Health Agency was \$300,000. The Agency had three (3) programs that qualified as Type A (Immunization Grants; Special Supplemental Nutrition Program for Women, Infant, and Children (WIC); and Centers for Disease Control and Prevention - Investigations and Technical Assistance). Programs of less than \$300,000 were determined to be Type B programs.

FINDINGS/NONCOMPLIANCE

Reportable Condition Related to Internal Control Over the Financial Statements.

None

Findings Related to Compliance with Requirements to the Financial Statements.

None

Findings Related to Compliance with Requirements to the Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

None

Branch - Hillsdale - St. Joseph
Community Health Agency

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year Ended September 30, 2004

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Financial Statements.

No prior reportable conditions

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings

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MANAGEMENT LETTER

To the Board of Public Health
Branch - Hillsdale - St. Joseph
Community Health Agency
Coldwater, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of the Branch - Hillsdale - St. Joseph Community Health Agency for the year ended September 30, 2004. In connection with the audit, we feel that a certain change in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. This suggestion is a result of our evaluation of the internal controls and our discussions with management.

Budgets should be monitored and amended when necessary.

As noted in the financial statements, some of the activities of the Agency exceeded the amounts appropriated.

The Michigan Public Act 621 of 1978, as amended, provides that the Agency adopt a formal budget and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We suggest the Agency monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

This condition was considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements and this report does not affect our report on the financial statements dated December 16, 2004.

This report is intended solely for the use of management and the Board of Health of the Branch - Hillsdale - St. Joseph Community Health Agency and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss this suggestion with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 16, 2004